

CITY OF KITTITAS
Kittitas County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. The City Council Members Should Resolve Problems Noted In Our Prior Audits

The city council has not resolved several findings that we have noted in our last four audit reports covering the years 1986 through 1992. These findings have outlined the deficiencies of the city's accounting records and the lack of establishing and implementing policies and procedures. We are again noting these deficiencies in Findings 2, 3, 4, and 6 of this report.

RCW 35A.11.020 states in part:

The legislative body of each code city shall have power to organize and regulate internal affairs within the provisions of this title

RCW 43.09.240 states in part:

Every public officer and employee shall keep all accounts of his office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or wilfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding for that purpose brought by the attorney general or by any prosecuting attorney

The city council does not appear to realize the importance of the recommendations submitted in the findings from the years 1986 to current and, therefore, have not implemented them.

The lack of accounting reports and policies and procedures have made it difficult for the city council to manage the public's resources. In addition, it has created a loss of public trust, increased the risk of fraud to occur and go undetected, and has substantially increased the cost of the audits by 51 percent (\$5,696) this year alone.

We recommend the city council take action to resolve problems noted in our audit reports.

2. The City Council Should Take Immediate Action To Resolve Material Internal Accounting Control Weaknesses

Our current audit noted that the city council has not taken any action to resolve material internal control weaknesses noted in the four prior audit reports covering the years 1986 through 1992.

These weaknesses have been a contributing cause for the financial statement deficiencies as reported in Finding 3. Material internal control weaknesses may disqualify the city as a possible recipient of federal and state grant funds or loans.

The following weaknesses still exist:

- a. Accounting records are not reconciled on a monthly basis. Bank statements are not reconciled with the check register, and the check register is not reconciled with the operation of cash and other financial reports.
- b. Revenues received by the city are not consistently receipted on treasurer's receipts. In addition, receipts are not reconciled to the bank deposits to ensure that all funds are deposited intact to the bank in a timely manner.
- c. Expenditures are not always coded to the proper accounts, and are not always supported with original invoices. All expenditures should be listed on a blanket voucher approval, signed by the council, and included in the official minutes of the city.
- d. Detailed ledgers are not maintained to document investment transactions.

The American Institute of Certified Public Accountants (AICPA) *Statement Of Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures . . . some of the specific objectives management may wish to consider include the following:

- a. Transactions are executed in accordance with management's general and specific authorization.
- b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- c. Access to assets is permitted only in accordance with management's authorizations.
- d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to differences.

We recommend the city council take action to implement and monitor internal accounting control policies and procedures. These internal control procedures should provide reasonable assurance that material errors and irregularities are either prevented or detected in a timely manner.

3. The Clerk Treasurer Should Prepare Current, Complete, And Accurate Financial Statements For The City

A disclaimer opinion has been issued on the financial statements of the city for the years 1991, 1990, and 1989. In 1992 a qualified opinion was issued noting several errors in the city's accounting records. During the 1993-94 audit of the financial statements, we again noted deficiencies in the city's financial reporting.

Revenue and expenditure transactions were not always posted to the proper funds. In addition, the clerk/treasurer did not prepare and record the necessary interfund transfers as required by ordinances and noted in Finding 6. Finally, the financial statements did not agree to the accounting records.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for accounts of the public officers, employees, or other persons.

The accounts shall show receipt, use, and disposition of all public property, and income, if any, derived therefrom; all sources of public income, and amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

As noted in Finding 2, the lack of internal control procedures presents an obstacle in preparing current, complete, and accurate financial statements. In addition, the city council is not monitoring financial management operations. This monitoring operation is necessary to provide assurance that records and accounts are properly maintained.

As a result of these deficiencies, extended audit procedures were necessary to establish the correct account balances for financial statement presentation. The increased audit costs associated with these efforts were substantially increased as noted in Finding 1. In addition, if the financial statements are not presented fairly, it precludes the users of these statements from making appropriate financial decisions.

We recommend the clerk/treasurer prepare financial statements that are a fair and accurate reflection of the accounting records. In order to achieve this objective it is necessary for the clerk/treasurer to properly maintain accounting records in accordance with internal accounting control procedures described in Finding 2. In addition, the city council should monitor the effectiveness of the internal control procedures and the preparation of financial statements.

4. City Funds Should Not Be Allowed To Operate With A Negative Cash Balance

As a result of the material internal control deficiencies noted in Finding 2, and incomplete financial statements as noted in Finding 3, the clerk/treasurer allowed the city funds to operate with a negative cash balance during calendar years 1993 and 1994, as noted below. The same concern was noted in the 1991-92 audit and was reported as an exit conference item.

Those funds with negative cash balances at year end are as follows:

| | <u>Fund</u> | <u>Deficit Balance</u> |
|-------|-------------|------------------------|
| 1994: | | |
| | Library | \$ 8,390 |
| | Water/Sewer | 17,472 See Finding 6 |
| 1993: | | |
| | Street | \$6,348 |
| | Library | 4,401 |
| | Water/Sewer | 3,396 See Finding 6 |

RCW 43.09.210 states in part:

. . . no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

As noted in Finding 5, the city clerk/treasurer did not monitor budget activities to ensure that revenues are adequate to support appropriations.

We recommend city officials monitor budget activities. Revenues should be compared with estimated revenues and expenditures with appropriations on a monthly basis to ensure that cash is available before expenditures are authorized.

5. Budgeting Procedures Should Be In Compliance With State And Local Laws

As noted in our last four audit reports covering 1986 through 1992, the city's budgeting procedures violated state and local laws in several areas. At the end of each month the department heads requested budget reports from the clerk/treasurer, however, the clerk/treasurer did not make these reports available to them. The city council did not require the budget reports to be prepared nor did they monitor the accounting records and budgets. This impedes the city council and department heads from being fiscally responsible over the city's financial records and activities. As a result, the following deficiencies were again noted for the 1993-94 audit period:

- The clerk/treasurer did not include a budget message with the approved budgets.

RCW 35A.33.055 states in part:

In every code city a budget message prepared by or under the direction of the city's chief administrative officer shall be submitted as a part of the preliminary budget to the city's legislative body . . . and shall contain the following

- (1) An explanation of the budget document;
- (2) An outline of the recommended financial policies and programs of the city for the ensuing fiscal year;
- (3) A statement of the relation of the recommended appropriation to such policies and programs;
- (4) A statement of reason for salient changes from the previous year in appropriation and revenue items;
- (5) An explanation for any recommended major changes in financial policy.

- The city council did not approve budgets for all required departments/funds.
- The city council approved an incomplete budget where the beginning cash and investments plus revenues do not equal expenditures plus ending cash and investments.

RCW 35A.33.050 states in part:

. . . the clerk or other person designated by . . . ordinance . . . of the city shall submit to the chief administrative officer a proposed preliminary budget which shall set forth the complete financial program of the city for the ensuing fiscal year, showing the expenditure program requested by each department and the sources of revenue by which each such program is proposed to be financed.

- The clerk/treasurer did not properly report the approved budgets in the city's annual financial records or reports.
- The city council approved expenditures in excess of appropriation in the following departments and funds.

| <u>Funds</u> | <u>Amount in Excess Of Appropriations</u> |
|-----------------|---|
| 1994: | |
| Current Expense | \$10,906 |
| Street | 1,023 |
| Kittcom | 17,883 |
| 1993: | |
| Current Expense | \$64,828 |

RCW 35A.33.120 states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing year. Unless otherwise ordered by a court . . . the expenditures of the city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount of appropriated for each fund in the budget for the current fiscal year

RCW 35A.33.160 states in part:

. . . or of knowingly making expenditures in excess of budget appropriations, shall be guilty of a misdemeanor and shall be fined not more than five hundred dollars for each separate violation.

We again recommend the city council to take an active role in ensuring a complete and accurate budget document. We are also again recommending that the city council monitor the city's accounting records and budgets to limit expenditures to budget appropriations.

6. The City Should Comply With The Water/Sewer Revenue Bond Covenants

During the audit of the city's water/sewer revenue bond covenants for the 1994 and 1993 audit period, we noted the following deficiencies:

- a. The clerk/treasurer did not make the required transfer from the Water/Sewer Fund to the Water Redemption Fund to cover the bond interest and principal payments. When the bond payments came due, the city council approved the expenditures out of the Water/Sewer Redemption Fund, however, the expenditures were paid from the Water/Sewer Fund.

The 1976, 1981, and 1985 Revenue Bond Ordinances state in part:

There is hereby created in the office of the City Treasurer a special fund of the City to be known as the Farmers Home Administration Water and Sewer Bond Redemption Fund 1976, 1981 and 1985 (herein after called the "Bond Fund"), which Fund shall be drawn upon for the sole purpose of paying the principle and interest on the Bonds as the same becomes due and payable.

- b. The net operating income of the Water/Sewer Fund was less than the debt service legal requirements. The city's 1994 and 1993 debt service shortages were \$17,472 and \$3,396, respectively.

The 1976, 1981, and 1985 Revenue Bond Ordinances state in part:

The Town has further pledged that so long as any portion of these Bonds remain unpaid, it will establish, maintain and collect rates and charges for water and services each, together with interest earned on the investments made on money in the Bond Fund, will be sufficient to pay when due the principal and interest on this bond

When the city council does not comply with the bond covenants, the lending company may require the debt to be paid in full at any given date.

The city council has not made this a priority to direct city staff to correct these areas of noncompliance.

We recommend the city council comply with the water/sewer revenue bond covenants.